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26 December 1957

CURRENT INTELLIGENCE WEEKLY SUMMARY



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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

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State Department review completed

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THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

INDONESIA Page 1

President Sukarno's forthcoming trip abroad will include visits to India, Pakistan, Ceylon, Burma, Egypt, and Japan, [redacted]

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Sukarno hopes to use the trip both to restore his health and to stimulate greater support from Afro-Asian countries for his campaign to acquire Netherlands New Guinea. Despite continuing evidence that army and moderate elements in Indonesia are trying to stabilize the situation created by the anti-Dutch drive, the Communists are continuing to consolidate their gains. Food shortages are increasing, and negotiations with the Dutch appear unlikely. [redacted]

RECENT KREMLIN DIPLOMATIC MOVES Page 2

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The USSR has rejected by implication the NATO conference proposal for a foreign ministers' meeting on disarmament. Foreign Minister Gromyko countered with a proposal for a special session of the UN General Assembly or an international disarmament conference and joined Khrushchev in calling for a "summit conference of representatives of capitalist and socialist countries." While the Soviet leaders were careful to leave the door open should they later decide that a foreign ministers' meeting could be exploited as a forerunner of a summit conference, they appear confident that constant repetition of their bids for bilateral Soviet-American talks and for an East-West heads-of-government conference will generate increasing public pressure on Western governments to accept Soviet terms for negotiations.

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PART II

NOTES AND COMMENTS

SOVIET ECONOMIC PLAN AND BUDGET FOR 1958 Page 1

The USSR's economic plan and state budget for 1958 indicate the continued preoccupation of Soviet leaders with those problems which last year forced a reduction in the earlier planned rates of growth. Measures will again be taken to increase fuel, energy, and raw materials output, agricultural production, housing construction, and labor productivity in order to lay the groundwork for future economic growth.

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KOZLOV APPOINTED RSFSR PREMIER Page 3

The appointment of Frol R. Kozlov, until now the party boss of Leningrad, as chairman of the Council of Ministers of the Russian Republic brings another Khrushchev supporter from the provinces to Moscow, in addition to the three appointments to the party secretariat announced on 18 December.

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SEROV DEFINES TASKS OF SOVIET SECRET POLICE Page 4

The "entire work" of the Soviet secret police is directed against the subversive activities of foreign intelligence services and "other enemies of socialism," according to state security chief Serov. His article in Pravda contained warnings against loose talk and careless contact with foreigners, and a veiled threat of investigation of offenders by the secret police.

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HUNGARY MAY BE SETTING STAGE FOR TRIAL OF IMRE NAGY . . . Page 5

The Hungarian regime seems to be building up to an early trial of former Premier Imre Nagy and other revolutionary leaders. Such a trial would be intended to remind Hungarians that they have no alternative to continued Communist rule of their country.

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PART II (continued)

TITO MAY DELEGATE SOME OF HIS RESPONSIBILITIES Page 6

Yugoslav President Tito during the coming year may transfer some of his functions to his two vice presidents, Kardelj and Rankovic. Tito would probably be motivated by a desire to relinquish some of the more onerous responsibilities of his office and to provide for an orderly transfer of power during his lifetime. A reduction in Tito's official activity would not diminish his personal authority or prestige.

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THE ECONOMIC OUTLOOK IN THE EAST EUROPEAN SATELLITES . . . Page 8

At the end of the third quarter of 1957, most of the East European satellites had attained levels of industrial production generally high enough to enable them to fulfill their 1957 goals, which called for increases in output ranging from 6 percent in East Germany to 26 percent in Albania. Consumer goods output and housing still lag far behind.

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MIDDLE EAST DEVELOPMENTS Page 9

Syrian radical nationalist spokesmen are reiterating their hope that the West will support their efforts to keep the Communists from capturing the leadership of Arab nationalist movements. Egyptian officials have also emphasized a desire for better working relations with the West, although Nasir has made public new charges of imperialist conspiracies against him. Israel's cabinet difficulties continue as a result of Prime Minister Ben-Gurion's determination to punish opposition elements who breached cabinet "discipline."

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THE AFRO-ASIAN SOLIDARITY CONFERENCE Page 10

Because of the Communist orientation of the Afro-Asian Solidarity Conference meeting in Cairo from 26 December to 1 January, no non-Communist Asian government has officially endorsed it. The Communists have, however, already gained some degree of success in developing a quasi-official appearance for the conference by prevailing on parliament members from many Asian countries to serve as delegates.

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PART II (continued)

FRANCE TAKING CONCILIATORY LINE ON NORTH AFRICA Page 11

The Gaillard government's increasingly flexible approach to North African issues is seen in its willingness to use Moroccan mediation for reaching a cease-fire in Algeria and in its new proposals for a Tunisian settlement. Arab suspicions have not yet been overcome and influential French rightists remain adamant against concessions, but there are signs that French opinion as a whole is becoming more conciliatory on the Algerian question.

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EUROPEAN REACTIONS TO NATO CONFERENCE Page 12

Western European opinion evidently sees the prospects of new high-level East-West talks as the most significant outcome of the meeting of the NATO heads of government. These expectations were not diminished by the apparent Soviet rejection of the communiqué's proposal for a foreign ministers' conference. At the same time, misgivings over the establishment of missile bases persist.

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BONN READY FOR TRADE AND REPATRIATION AGREEMENT WITH MOSCOW Page 13

West Germany expects to conclude an agreement with the USSR early in 1958 which will meet some of its original demands for repatriation of Germans in return for granting Moscow a broad consular agreement and a three-year trade pact with quotas considerably above present trade levels. In addition to these concessions to Moscow, Bonn is separately considering a liberalized cultural exchange program.

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ITALIAN CHRISTIAN DEMOCRATS PREPARE FOR ELECTIONS Page 14

The Christian Democratic party is starting to organize for the spring national elections, aware that as the party controlling the Italian government for the past ten years, it will be the major campaign target of the other parties. Secretary General Fanfani reportedly plans to use the elections as a means of building a homogeneous party organization, but he will be handicapped by the necessity of not antagonizing potential coalition partners during the campaign.

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PART II (continued)

POLITICAL CRISIS THREATENS IN SOMALIA Page 15

A ministerial and party crisis threatens in the Italian-administered UN trust territory of Somalia, as a result of growing tribal factionalism and discord within the government over ties with Cairo. The prime minister and the minister of the interior, who represent different tribal groups, are feuding and have threatened to resign. Two others of the six ministers have recently tried to resign.

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ARGENTINE PRE-ELECTION DEVELOPMENTS Page 16

The major Argentine political parties have now selected presidential candidates for the general elections scheduled for 23 February. Important leaders of the still-outlawed Peronista party are to meet with Peron in Caracas on 28 December to discuss election strategy, although Peron no longer controls all Peronista groups. No coalitions have been formed among the smaller parties

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PEIPING'S OFFER TO SETTLE OVERSEAS CHINESE CITIZENSHIP ISSUE Page 17

Peiping's efforts to win additional adherents among Overseas Chinese may gain new momentum from the Indonesian parliament's approval on 17 December of a treaty allowing Overseas Chinese the choice of retaining Chinese citizenship or becoming Indonesian citizens. Willingness of Peiping to abandon the traditional view that all Overseas Chinese are automatically citizens of China is intended to contrast with Chinese Nationalist equivocation on the citizenship issue and to make a favorable impression on Southeast Asian governments.

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CHINESE COMMUNISTS TO TAKE HARDER LINE ON MINORITY PEOPLES Page 19

The Chinese Communists' attack on "parochial nationalism" among ethnic minorities reflects a failure to win over these people by conciliation. The drive for "socialist education" in minority areas, launched in late November, is an indication that the Chinese Communists are adopting a harsher line toward the 35,000,000 minority peoples in China. At the provincial party congress in Yunnan which closed on 10 December, deputies were told that nationalism among minorities must be vigorously opposed.

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PART II (continued)

BURMESE PRESSING PROPAGANDA OFFENSIVE AGAINST INSURGENTS . Page 20

The Burmese government, using recently defected members of the insurgent Burma Communist party, is carrying out a propaganda offensive which may weaken insurgent morale and undercut the "peace through negotiations" campaign of the party leadership and associated overt front groups. The government is also embarked on a widely advertised scheme to "rehabilitate" surrendered insurgents through work brigades and in some cases individual financial assistance.

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SINGAPORE CITY COUNCIL ELECTIONS Page 21

The results of Singapore's city council elections on 21 December, in which leftists made a strong showing, were a severe blow to the strongly anti-Communist government of Chief Minister Lim Yew Hock and his Labor Front party. They may also foreshadow a growing leftist threat to the government's position in the more important legislative assembly elections tentatively scheduled for next September. The poor showing of Labor Front candidates suggests that even if Lim's efforts to align the colony's major non-Communist parties eventually succeed, he and his party may be relegated to relatively minor roles in such a coalition.

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PART III

PATTERNS AND PERSPECTIVES

SOVIET DIPLOMACY EXPLOITS TECHNOLOGICAL ACHIEVEMENTS . . . Page 1

The course of Soviet foreign policy since Moscow's ICBM announcement on 26 August reflects an effort by the Soviet leaders to convey the impression that their technological achievements have given them a political and psychological advantage over the Western powers which can be translated into important diplomatic gains. The major objectives of the current Soviet diplomatic offensive are to demonstrate that the West's "positions of strength" policy has been unable to force Communist withdrawals, and to induce the West to accept postwar Communist gains by formal recognition of the status quo. Despite their frequent claims of a decisive shift in the "balance of forces" in favor of the Sino-Soviet bloc, the Soviet leaders probably do not believe that their technological successes have produced any basic changes in the strategic situation.

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PART III (continued)

FINLAND'S ECONOMIC DIFFICULTIES Page 7

Finland's conclusion of a trade agreement on 4 December with the Soviet Union underlines its economic dependence on the Sino-Soviet bloc. To preserve its Western markets, Finland devaluated its currency last September. The government of Premier von Fieandt which took office on 29 November faces a formidable task in stabilizing the country's economy.

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INCREASING FACTIONALISM IN THE SOUTH KOREAN LIBERAL PARTY Page 9

Factionalism is increasing in the South Korean Liberal party because of the declining health of Party Chairman Yi Ki-pung and the maneuverings of other party leaders who are aware of his disability and oppose his leadership. Should Yi be forced to retire from active politics, the ensuing struggle for political advantage within the party would be difficult for even President Rhee to control. The party, in the meantime, faces a serious dilemma over how to conduct its campaign for the 1958 National Assembly elections, which will probably be held in May.

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RAMIFICATIONS OF THE 1957 MOSCOW YOUTH FESTIVAL Page 12

The impact of last summer's international youth festival in Moscow on foreign delegates and Moscow citizens points up the problems the Soviet Union faces in attempting a broad cultural exchange with the non-Communist world. While the USSR impressed many delegates as a powerful but peace-loving nation, this was achieved at the price of exposing thousands of Soviet youths and Muscovites to a wide range of non-Communist views. The overwhelming welcome accorded foreign participants and the zeal of Soviet citizens, despite strong official disapproval, in seeking contacts with individual foreigners revealed an intense interest and curiosity in all things foreign.

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PART I

OF IMMEDIATE INTEREST

INDONESIA

President Sukarno's forthcoming trip abroad will include visits to India, Pakistan, Ceylon, Burma, Egypt, and Japan,

25X1 [redacted] In

25X1 addition to restoring his "health," Sukarno hopes to promote more forthright support for Indonesia's campaign to "regain" Netherlands New Guinea--West Irian. He apparently has in mind the stimulation of public demonstrations in various Afro-Asian countries, thinking that such international pressure will compel the Netherlands to give up Irian.

Despite continuing evidence that army and moderate political elements in Indonesia are trying to slow the pace of the anti-Dutch drive and stabilize the situation, the Communists are continuing to consolidate their newly won positions, particularly in the management of seized Dutch property. The Communists, however, apparently are being careful not to overplay their gains.

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Communists are anxious to avoid any action which might precipitate the fragmentation of Indonesia.

Signs of the developing economic crisis are increasingly ominous. Food shortages in particular are being reported in more areas, both on Java and

on some of the outer islands. This situation, resulting primarily from the breakdown of distribution channels, is being aggravated by floods in Central and West Java and by the hoarding of available rice stocks. The prospects of obtaining relief from nearby areas, moreover, are not bright, as officials in Singapore and Malaya have stated they have no rice to spare, and both Burma and Thailand have had relatively poor harvests.

In regard to possible negotiations with the Dutch, Dutch Foreign Minister Luns stated on 23 December that The Hague is prepared "in principle" to negotiate mutual problems, but added that recent events had reduced the possibilities for such talks to an "extremely narrow basis." There is no indication that the Dutch are prepared to negotiate on their sovereignty over Netherlands New Guinea--the key issue as far as the Djakarta government is concerned. There is no confirmation of Indonesian Foreign Minister Subandrio's claim of West German mediation efforts, and it is presumed Bonn would be cautious about intervening in a matter on which the Dutch are so highly sensitive.

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RECENT KREMLIN DIPLOMATIC MOVES

Khrushchev and Gromyko have promptly rejected, at least by implication, the NATO conference proposal for a foreign ministers' conference on disarmament. Gromyko charged on 21 December that this proposal was included only to "mislead the peoples who really desire an end to the arms race" and stated that the USSR cannot accept the West's terms "as in any way conducive to disarmament." He countered with a proposal for a special session of the UN General Assembly or an international disarmament conference, and repeated Khrushchev's previous bid for a "summit conference of representatives of capitalist and socialist countries."

A widely publicized TASS account of Gromyko's speech which gave the impression of an outright rejection of a foreign ministers' conference was probably intended to generate further public pressure on Western

governments to accept Soviet terms for a summit conference. The official position as stated by Gromyko, however, rejected only the specific Western terms for a foreign ministers' meeting and thus left the door open should the Soviet leaders later decide that such a meeting could be exploited as a forerunner of a summit conference. The discrepancy between the TASS account and Gromyko's actual statements recalled the tactics used by the Soviet Foreign Ministry press officer in trying to create the impression that Bulganin's notes of 5 November 1956 to the prime ministers of Britain, France, and Israel at the height of the Suez crisis contained threats of unilateral Soviet military action.

Both Khrushchev and Gromyko in their speeches to the Supreme Soviet repeated proposals for reducing international tension which were outlined in Bulganin's

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letters to NATO members prior to and during the Paris conference. They repeated Soviet calls for a summit conference of Western and Communist governments, and Khrushchev urged that such a meeting be preceded by bilateral negotiations between the United States and the Soviet Union. Khrushchev ruled out discussion of "questions on which there are ideological differences" and demanded, as a precondition, that the West "recognize the coexistence" of capitalism and communism, accept the status quo, and disavow "cold-war methods."

In its foreign policy resolution, the Supreme Soviet foreshadowed Khrushchev's 23 December announcement in Kiev of additional cuts in military manpower by "instructing" the Soviet government to "consider the question of a further reduction of the armed forces of the USSR," while at the same time keeping their "remaining strength" at a level sufficient to ensure Soviet defenses pending an international arms cut. It called on the United States, Britain, and France to follow the Soviet example and undertake similar unilateral cuts.

By thus supplementing its proposal for a self-imposed ban by the nuclear powers on the use and testing of nuclear weapons effective 1 January, Moscow hopes to present a sharp contrast between the USSR's "peaceful posture" and Western moves to strengthen NATO militarily, and at the same time to publicize the impression that even with reduced forces, technological advances will continue to give the Soviet Union a military advantage over the West.

In a further move to attract world-wide attention to the USSR's program for reducing tension and strengthening international confidence, the Soviet Foreign Ministry on 25 December delivered notes to all foreign missions in Moscow transmitting the text of the Supreme Soviet resolution.

Moscow has also attempted to sound out American reaction to its bids for bilateral Soviet-United States talks. Yuri Zhukov, head of the Committee for Cultural Relations with Foreigners, told Ambassador Thompson on 22 December that in the final analysis, East-West problems could only be resolved by Soviet-American discussions. He claimed that America's allies had prevented such talks in the past but that the British seem to have changed their position and now would favor USSR-US talks.

Zhukov's probing suggests that the Soviet leaders may be planning to follow the cautious and equivocal bid for bilateral heads-of-government talks in Bulganin's letter of 10 December to President Eisenhower with a formal and definite call for such a meeting. The Russians probably expect to benefit from either acceptance or rejection by the United States. Acceptance, in their view, would undercut American efforts to strengthen NATO, while rejection would facilitate Soviet efforts to demonstrate that only the United States stands in the way of a substantial improvement in East-West relations.

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PART II

NOTES AND COMMENTS

SOVIET ECONOMIC PLAN AND BUDGET FOR 1958

The USSR's economic plan and state budget for 1958, presented to the Supreme Soviet on 19 December, indicate the continued preoccupation of Soviet leaders with those problems which last year forced a reduction in the earlier planned rates of growth. Measures are being taken to increase fuel, energy, and raw materials output, agricultural production, housing construction, and labor productivity in order to lay the groundwork for further economic growth. Priority in the development of heavy industry is reaffirmed as the basis both for "catching up with the US" in per capita industrial output and for "ensuring the security of the state."

Continuity in planning is being stressed more than in the past. According to planning chief Iosef Kuzmin, the "main trends" of the 1958 economic plan were "determined by the goals of the seven-year (1959-1965) plan, a draft of which is already being prepared." Kuzmin also stated that Gosplan drew up the broad outlines of the 1959 plan--simultaneously with its work on the 1958 plan--in order to meet criticisms that planning was disconnected.

The accompanying budget submitted by Finance Minister Arseni Zverev indicated continued emphasis on the development of industry, rapid increases in allocations for scientific research, and announced

military expenditures at the level prevailing since 1956.

As a result of regionalization of industrial administration, an increased share of centrally budgeted funds passes through local and republic budgets--about 50 percent of total funds for 1958 compared to 24 percent planned for 1956 and 32 percent planned for 1957.

The explicit military allocation was set at the equivalent of \$24.1 billion (96.3 billion rubles), virtually the same level as reported for 1956 and planned for 1957. It should be noted, however, that appreciable outlays for military programs are not covered by the explicit defense allocation.

The allocation of \$4.55 billion (18.2 billion rubles)

1958 SOVIET STATE BUDGET EXPENDITURES

BUDGET CATEGORY	BILLIONS OF RUBLES		PLAN	PLAN
	1955	1956	1957	1958
FINANCING THE NATIONAL ECONOMY	232.7	244.8	244.7	257.1
INDUSTRY	117.0	126.2	118.4	129.0
AGRICULTURE	57.7	50.5	52.9	53.4
SOCIAL-CULTURAL	147.2	164.4	188.4	212.8
EXPLICIT MILITARY	107.5	97.3	96.7	96.3
ADMINISTRATION	12.5	12.1	11.9	11.9
OTHER	39.6	44.9	62.9	49.6
TOTAL EXPENDITURES	539.5	563.5	604.6	627.7

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to finance Soviet research institutions--an 11 percent increase over 1957 and a one-third increase over the 1956 planned allocation--reflects the high priority given to scientific development. This allocation is for funds to scientific institutions and does

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USSR: SELECTED INDUSTRIAL OUTPUT TARGETS

PRODUCT	UNITS	OUTPUT			ANNUAL PERCENTAGE INCREASES			
		REPORTED 1956	PRELIMINARY 1957	PLANNED 1958	AVERAGE 1951-1957	PRELIMINARY 1957	PLANNED 1958	AVERAGE 1958-1972
COAL	MIL TONS	429.2	462.9	488.9	8.5	7.7	5.8	2.8
PETROLEUM	MIL TONS	83.8	98.8	112.6	14.7	18.0	14.0	9.4
ELECTRIC POWER	BIL KWH	192.0	209.5	231.0	12.7	9.1	10.3	9.8
PIG IRON	MIL TONS	35.8	37.1	39.1	9.8	3.6	5.4	5.3
STEEL	MIL TONS	48.6	51.1	53.6	9.3	5.1	4.9	5.3
								8.6

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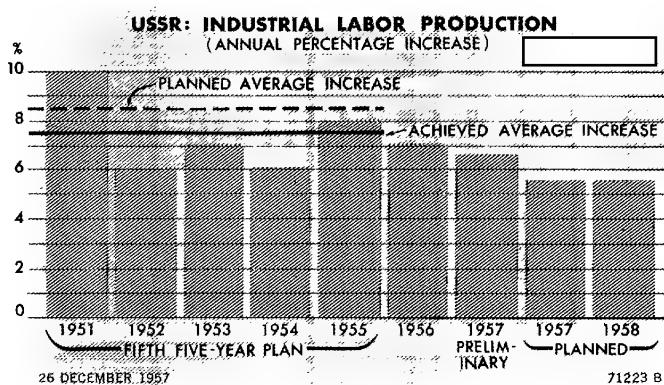
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not represent the total research and development effort of the Soviet Union.

Growth of industrial output for 1958 which is planned to rise 7.6 percent--8.3 percent for producer goods and 6.1 percent for consumer goods--seems pegged deliberately low. This may be a hedge against possible transitional disruptions which might accompany the "shake-down" period of Khrushchev's reorganization. Kuzmin, however,

Efforts will continue to be made in 1958 to correct those growth lags in the production of basic industrial raw materials and fuels which emerged in 1956 to jeopardize the speed of future Soviet industrial growth. Thus Kuzmin announced plans to increase production capacities for iron ore some 35,000,000 tons during 1958-1959, for coal mining 37,100,000 tons during 1958, and for electric power 5,000,000 kilowatts during 1958. Kuzmin placed major stress on the need for accelerated growth in petrochemicals output as the basis for synthetics. In this connection, more than 70 percent of the planned increase in centralized investments for 1958 is accounted for by increases in three branches of industry --chemicals, gas and petroleum, and ferrous metallurgy.

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attributed the achievement of a 10-percent rise in industrial output in 1957, as against the 7.1 percent planned, to the beneficial effects of the reorganization.

Output targets for specific industrial products indicate 1958 growth about matching or somewhat above the annual average growth rates implied by Khrushchev's 40th anniversary forecasts of output for 1972. Except for

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petroleum, given targets are below the original rates of increase specified by the superseded Sixth Five-Year Plan.

Increases in output of industry, according to Kuzmin, depend largely on labor productivity increases.

Kuzmin's speech reflects the persistent nature of the Soviet agricultural problem. The 17-percent increase planned in gross output of agriculture for 1958 over 1957 in large measure involves an attempt to regain the bumper harvest levels of 1956. Unlike other portions of the 1958 plan, this agricultural output goal appears overambitious; its fulfillment will

depend largely on exceptionally favorable weather.

Construction of urban housing, in accordance with the August 1957 decree on housing, is planned to expand by nearly 30 percent in 1958. It will comprise about one third of total construction expenditures, about the share planned for 1957. Retail trade turnover is planned to increase by 7.3 percent, to \$165 billion (660 billion rubles) for 1958, an increase considerably below that planned for 1957. Planned output of consumer goods by industry is to rise during 1958 by only 6.1 percent.

[] (Prepared by ORR)

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KOZLOV APPOINTED RSFSR PREMIER

The appointment of Frol R. Kozlov, until now the party boss of Leningrad, as chairman of the Council of Ministers of the Russian Republic (RSFSR) brings another Khrushchev supporter from the provinces to Moscow, in addition to the three appointments to the party secretariat announced on 18 December. The decision to effect the change was presumably reached at the central committee plenum which met on 16 and 17 December. M. S. Yasnov, the former chairman, was appointed to serve as deputy to Kozlov.

Kozlov, a long-time party official, was raised to candidate membership in the party presidium in February 1957 and to full membership at last June's party plenum. He rose to prominence through the Leningrad party apparatus. In 1950 he replaced V. M. Andrianov as city party chief, and in July 1952 transferred to the oblast party organization as

Andrianov's second secretary. In April 1953 he stepped down temporarily when N. G. Ignatov assumed the posts of city boss and second secretary in the



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oblast. In November 1953, after a shake-up in the Leningrad party organization which was apparently instigated by

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Khrushchev, Kozlov became oblast party boss.

While the post of premier of the RSFSR has not had great political importance in the past, the appointment of a man of Kozlov's stature may reflect the republic's large and vital role in overseeing and coordinating the activities of the 68 regional economic councils (sovnarkhozy) set up within its territory under the new

industrial reorganization scheme.

As a result of the latest shift, the key post of party first secretary is now vacant in the Ukrainian and Uzbek Republics and in the Leningrad and Gorkiy Oblasts. Appointments to these important "steppingstone" positions will indicate how free a hand Khrushchev has in making such selections. [redacted]

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SEROV DEFINES TASKS OF SOVIET SECRET POLICE

The "entire work" of the Soviet secret police (KGB) is presently directed against the subversive activities of foreign intelligence services and "other enemies of socialism," according to state security chief Ivan Serov. Writing in Pravda on the 40th anniversary of the security services, the chairman of the KGB cautioned that American and other intelligence agencies are seeking by every possible means to infiltrate spies and diversionists into the Soviet Union. Calling on the general populace to co-operate with the KGB in unmasking such enemies, Serov sternly warned workers in science and technology that a wagging tongue is a boon for the enemy and that "chatterboxes" would be punished.

Serov's warning was echoed on 22 December by M. P. Svetlichny, chief of the KGB Directorate for Moscow Oblast, who cautioned citizens against "careless" contacts with foreigners. Both articles indicated that the secret police would step up counterintelligence activities in the USSR, and Serov noted that several "operational deficiencies" had recently been eliminated from security work.

These warnings and the veiled threat of investigation of offenders by the secret police are likely to make contacts between Western and Soviet citizens increasingly difficult. Serov's allusion to the ousting of American diplomats in recent months and his claim that it was necessary during World War II to keep watch on the intelligence activities of "some countries who were members of the anti-Hitlerite coalition" suggest that Western diplomats and travelers may be subjected to increased surveillance and harassment by the KGB.

Apparently in order to counteract any fears of a renewed era of police terror, Serov made it clear that the "consequences of the cult of the individual" and the negative effects of the reign of Beria and Abakumov had been eliminated. He stated that their henchmen had been removed from the state security service and that the secret police were again under the direct leadership and unremitting control of the Communist party, the main source of its power. There can be no doubt, he said, that the workers in state security will continue to be worthy and reliable

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protectors of the motherland and loyal sons of the Communist party.

At a 22 December meeting devoted to the anniversary of the

security service and attended by several members of the Soviet party presidium, Serov reiterated the devotion of the KGB to the party and stated that "it is imperative for the USSR to have militant state security organs reliable in every respect." 25X1

HUNGARY MAY BE SETTING STAGE FOR TRIAL OF IMRE NAGY

The Hungarian regime during the past week has appeared to be building up to an early trial of former Premier Imre Nagy and other high officials of the revolutionary government. Such a trial would be intended to convince Hungarians that they have no alternative to continued Communist rule of their country. Concurrently the regime, assured of continuing Soviet economic aid by the grant of long-term credits for heavy industry, is taking steps to crack down on economic offenders.

Attacks on Nagy reached a high point at the recent meeting of the National Assembly, at which high officials assailed him as a "revisionist traitor." In a particularly vituperative address, First Deputy Premier Ferenc Muennich declared that Nagy and his associates--"with foul hypocrisy"--turned the Hungarian people against "its best friend, the Soviet Union."

Supreme Prosecutor Geza Szenasi was still more categorical in his charges, although he apparently did not present

a formal indictment. He accused "the traitorous group led by Imre Nagy" of allying itself with "Horthyites, clerical reactionaries, and right-wing leaders of former coalition parties" to clear the way for the counterrevolution and then --"in open treason"--leading the revolution to overthrow the state. Szenasi also slammed the door on United Nations efforts to secure clemency for the revolutionary leaders by declaring that the "liquidation of the counterrevolution" was Hungary's internal affair. 25X1



A wave of trials involving armed participants in the national uprising was in progress last week throughout the country. In one of these trials, the prosecution charged that the participants "followed the orders of Imre Nagy and Maleter" and opened arms depots to the

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revolutionaries. In another mass trial, Catholic priests and seminarians--including the former secretary of Cardinal Mindszenty--are accused of "looting" the files of the State Bureau of Church Affairs on the cardinal's orders. Nagy has been accused of illegally releasing the cardinal.

There has also been a big propaganda build-up to prove that Nagy is a Communist heretic. In an 18 December address at the Academy of Sciences by Dezso Nemes, a candidate politburo member, Nagy was accused among other things of refusing to humiliate himself after he was expelled from the party in 1955 and, instead, writing a defense "which he had his friends in the West publish."

These developments have been accompanied by a much harder line in internal affairs. Muennich charged during the recent National

Assembly meeting that "the hostile elements have shifted their harmful activity to the domain of our economic life," and called for activation of organs of the new state control apparatus, People's Supervision, throughout the country. These would report through a top committee directly to the Council of Ministers and deal with economic offenses and laxness which "could not be prosecuted through the ordinary state organs."

These developments suggest that the Kremlin is no longer concerned about the Yugoslav reaction to trials of revolutionary leaders. The decision to try Nagy was reported to have been taken at the Moscow conference of Communists in November. The Yugoslav delegates in bilateral talks with the Hungarians were stated to have "fought hard" against the decision but agreed to limit their public protests in the event of a trial to generalities only.

25X1

TITO MAY DELEGATE SOME OF HIS RESPONSIBILITIES

Yugoslav President Tito during the coming year may transfer some of his functions to his two top vice presidents, Kardelj and Rankovic. Such a step would probably be motivated by a desire on the part of Tito to relinquish some of the more onerous responsibilities of his office and to provide for an orderly transfer of power during his lifetime. The regime is so completely centered on Tito's personal authority and prestige that a reduction in his official activity would not diminish his control. It seems unlikely, however, that any change will take place before next spring.

A recent plethora of official comment about Tito's

health could have been intended to set the stage for an announcement of his less active participation in public affairs. In a mid-November conversation with an American embassy official in Belgrade, a member of the Yugoslav party central committee implied that changes among the top Yugoslav leaders were likely to take place soon. On 30 November, however, a member of the Yugoslav Foreign Ministry disclosed to the embassy that changes had been "postponed."

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In his interview with American Ambassador Riddleberger on 6 December, Tito said treatment of his illness has been effective and that he is much better. Official releases have attributed Tito's prolonged stay at Brioni to his need to recover from an acute attack of lumbago.

A logical shift in the Yugoslav hierarchy and the one



KARDELJ

most persistently rumored would have Tito retain the presidency but turn over direction of the Executive Council of the Federal People's Assembly to Vice President Kardelj and formal leadership of the party to Vice President Rankovic.

The consensus is that in conjunction with the governmental changes, Vladimir Popovic, Yugoslav ambassador to China, will replace Koca Popovic as foreign minister and the latter will become a vice president to assist Kardelj. Secretary of Defense Gosnjak would replace the ailing Vladimir Bakaric as president of the Croatian Republic. Economic boss Vukmanovic-Tempo would take over as secretary of defense and Bakaric might either replace Vukmanovic as vice president in charge of economic affairs or retire.

The steps required to effect any top-level personnel changes in the government are relatively easy, although the Federal People's Assembly would have to amend the constitution, according to which the president of the republic is ex-officio head of the Federal Executive Council, if Kardelj is to assume the latter function.

Nationalist rivalries within the party which may have recently been aggravated may eventually become a problem, but the unusually strong cohesion among the top leadership is such that relinquishment by Tito of secretary generalship of the party--a post he has held since 1937--will not lead to disruptive factionalism, at least as long as Tito lives.

Rumors of changes have begun to diminish during the past few weeks, and an editorial on 4 December in Yugoslavia's leading newspaper, Borba, praised the stability of Yugoslav lead-



RANKOVIC

ership, in effect denying rumors that changes were imminent. The most logical time to make any changes would be following the election of the new Federal Assembly next March and the party congress scheduled for April.

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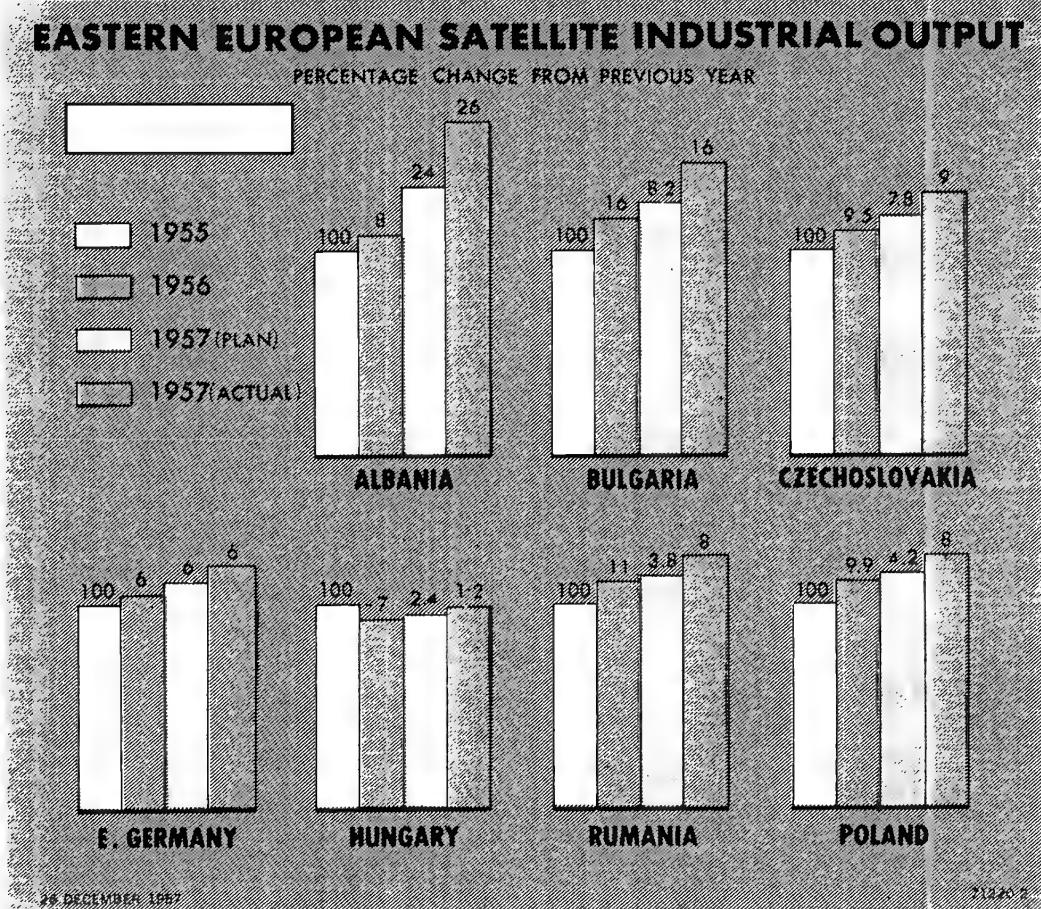
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THE ECONOMIC OUTLOOK IN THE EAST EUROPEAN SATELLITES

At the end of the third quarter of 1957, most of the East European satellites had attained levels of industrial production generally high enough to enable them to fulfill goals planned for the entire year. These goals called for increases in output ranging from 6 percent in East Germany to 26 percent in Albania. Hungary, an exception, will probably not achieve its goal of a 2.4-percent increase. Consumer goods output and housing still lag far behind. Appreciable increases in consumer goods production, however, have been

made in Rumania and Hungary--brought about in the latter case primarily by credits from the USSR.

Dissatisfaction with economic conditions could lead to unrest in Poland and East Germany, but Czechoslovakia, the most stable economically of all the satellites, is increasing its industrial production at a rapid rate and is the only satellite which has not received a recent loan from the Soviet Union. Polish industrial output is above plan but will probably be only about 8 percent

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above the 1956 level. This is the lowest rate of growth for Poland since the war. Poland's major problem will continue to be its inability to improve living standards significantly.

East Germany is becoming increasingly dependent on Soviet aid, largely because of its inability to expand the raw materials and fuel base and its contracting manpower supply. The intensification of these economic problems has caused acrimonious debate in the East German politburo over steps to improve the faltering rate of growth and eliminate arrears in exports. The regime is seeking ways to raise work norms in the hope that costs will be lowered and output increased, but is unlikely to succeed because of strong worker opposition to norm changes.

Hungary's struggle to restore industrial production to the pre-revolt level has been hampered by labor's reluctance to cooperate with the regime. Without continuing aid from the

Soviet Union and other satellites in the form of industrial raw materials, fuels, and foreign exchange, Hungary cannot maintain its workers' living standard at the present relatively high level.

Poland and Czechoslovakia may have set new records for crop production this year, and East Germany's output was above that of the good 1955 season. Harvests in the southern satellites were also well above last year. These increases resulted largely from favorable weather, but expanded acreage, increased supplies of fertilizer, more agricultural machinery, and greater incentives were also important factors. Food for local consumption from indigenous production for the consumption year 1957-58 will be greater than in 1956-57, except perhaps in East Germany. No shortages of food that would change the normal consumption pattern are anticipated in the satellites; however, irritating localized shortages will occur from time to time. [REDACTED] (Prepared by ORR)

25X1

MIDDLE EAST DEVELOPMENTS**Israel**

Israel's cabinet crisis continues as a result of Prime Minister Ben-Gurion's determination to deliver a body blow to those who oppose his policy of seeking stronger ties and guarantees from Western countries. The opposition members of the cabinet who aroused Ben-Gurion's wrath by revealing prematurely his plan to send an emissary to West Germany were instructed by their party to refuse to resign, thus compelling the prime minister to resign himself if he wishes to revamp the cabinet. Under these conditions, the formation of a new coalition

cabinet may be a long-drawn-out process; however, tough negotiating over cabinet posts has never yet seriously impeded the operations of the government or blocked the conduct of business by the Israeli parliament.

Egypt

Egyptian President Nasir's speech in Port Said on the anniversary of the evacuation of British and French forces announced no new policies. Although Nasir took the occasion to jibe at "imperialists" whose plots he said had gone awry, he named no specific nation in connection with this charge.

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Egyptian officials and other Arab intermediaries who are in touch with the Nasir regime continue to emphasize their desire to see an improvement in Arab-Western relations. One device for this purpose which has the support of Egyptian Foreign Minister Fawzi and UN Secretary General Hammarskjold is an inter-Arab bank which would use special UN technical assistance funds in addition to contributions from the major Arab states, and, it is hoped, oil-rich Kuwait, to finance development projects throughout the area.

Hammarskjold, who spent Christmas with the UNEF troops in Gaza, may have touched on this subject during his visit in Cairo. The proponents of the project see political as well as economic benefits flowing from it. They argue that the economic developments it could support might in time lead toward a Palestine settlement, since economic stability would permit political stability and this in turn would give hypersensitive governments the strength to negotiate seriously with Israel.

Syria

Similar overtures toward better relations are coming from Syria, although not as insistently as from Egypt. Baath leader Akram Hawrani assured an American official last week that he hoped to keep the Communists and the USSR from becoming the leading "banner wavers of Arab nationalism," and indicated Western support should be forthcoming for this purpose. Hawrani's archrival, Defense Minister Azm, wound up his visits to Moscow and Prague, however, with assertions that he looked forward to additional and closer ties between Syria and Egypt and the Sino-Soviet bloc.

Yemen

Yemen's Crown Prince Badr also was feted by the Soviet bloc last week; he stopped in Bucharest and Warsaw for talks on the establishment of trade and possibly diplomatic relations.

25X1

THE AFRO-ASIAN SOLIDARITY CONFERENCE

Because of the Communist orientation of the Afro-Asian Solidarity Conference meeting in Cairo from 26 December to 1 January, no non-Communist Asian government has officially endorsed it. All but Indonesia and Burma, moreover, have urged their nationals not to attend.

The Communists have had some success, however, in giving the conference the appearance

at least of having a degree of approval by some Asian governments. The chairman of the preparatory committee, for instance, was Dr. Anup Singh, a member of the Indian parliament. Several delegates from other countries appear to have some semiofficial standing.

In this connection, two Laotian "parliamentary study groups" headed by leftist

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politicians are planning to stop off in Cairo for the conference, while 30 to 45 Japanese--including government party Diet members--will also be present.

Burma is to be represented by a five-man delegation selected by the Communist-influenced National United Front opposition and financed by the government party, the Anti-Fascist People's Freedom League. The Indonesian delegation with parliamentary members from various parties will seek the conference's endorsement of Djakarta's efforts to force the Dutch to give up West Irian. Malaya is tentatively to be represented by three legislative councilmen belonging to the dominant Alliance party. Although there has been no definite word on representation from Cambodia and Thailand, there have been reports that left-wing parliament members of both countries are planning to make the trip to Cairo.

The sponsors have taken great pains to make sure the conference will give the impression of being well attended and having extensive popular support. To this end, they have been prepared in a number of cases to provide both travel and local expenses. They may also augment the delegations of non-Communist countries by accrediting expatriates residing in Egypt and nearby countries.

The general reluctance of Asian governments to criticize the conference is probably due to the fact that it has the popular "Afro-Asian" label and because it will capitalize on popular slogans of anticolonialism and "peace." Many of the governments of countries with delegates at the conference may also find it difficult to counter the exploitation of the delegates' reports when they return.

25X1

FRANCE TAKING CONCILIATORY LINE ON NORTH AFRICA

The Gaillard government's increasingly flexible approach to North African issues is seen in its willingness to use Moroccan mediation for reaching a cease-fire in Algeria and in its new proposals for a Tunisian settlement. Arab suspicions have not yet been overcome and influential French rightists remain adamant against concessions, but there are signs that French opinion as a whole is becoming more conciliatory on the Algerian question.

French tension over the whole North African situation has apparently been eased by a combination of factors, including the moderate tone of the recent UN resolution on Algeria, the belief that the

pacification campaign is succeeding, and National Assembly approval of a basic Algerian statute.

Premier Gaillard now appears ready for positive steps toward a cease-fire, and Foreign Minister Pineau may have implied that more than a cease-fire is in the offing when he told the assembly's Foreign Affairs Committee on 13 December that France would use the Moroccan offer "to reach a detente." Most of the cabinet favor using Moroccan good offices and Pineau hinted that discussions with Rabat have already been undertaken.

The rightists, however, are moving toward complete

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opposition to Gaillard for calling for use of Moroccan good offices. These elements apparently have the support of Minister for Algeria Robert Lacoste, who has called the Moroccan offer a trap that could lead France into direct negotiations with the rebels. The stiffening attitude is also reflected in the upper house's delay in considering the basic statute.

The decision to offer Tunisia a liberal settlement is evident in the instructions to French Ambassador Gorse, who left for Tunisia on 20 December armed with broad negotiating powers. Premier Gaillard has guarded against subsequent obstruction on the part of French officials by obtaining their advance approval in detail to the proposals for contracting the French military position in Tunisia. The new leniency apparent toward Morocco on economic questions is another step toward reducing French-Arab tensions.

A striking indication of changing French public attitudes

toward Algeria is a recent unanimous resolution by the General Council of the Gard Department in southern France calling for negotiation of a cease-fire as soon as possible. The influential Paris daily, Le Monde, sees this resolution as marking "the profound evolution" taking place in an area whose economy is most directly linked with Algeria.

France's top economic administrator told Ambassador Houghton on 9 December that the position of assembly deputies on the Algerian problem was not so rigid as their votes to date might indicate, and added that many of them are aware that the present policy is not leading to a satisfactory solution. Responsible Frenchmen have suggested to American officials that a settlement might be initiated by someone outside of France with the interests of the racial elements in Algeria being guaranteed by Tunisia and Morocco and by the European Community of Six. Arab suspicions have not yet been overcome, however.

25X1

EUROPEAN REACTIONS TO NATO CONFERENCE

Western European opinion evidently sees the prospects of new high-level East-West talks as the most significant outcome of the meeting of the NATO heads of government. These hopes were not extinguished by the apparent Soviet rejection of the communiqué's proposal for a foreign ministers' conference. At the same time, misgivings over the establishment of missile bases persist.

In hailing the move toward resumed negotiations with the Soviet Union, West German papers attributed this to Chancellor

Adenauer's powerful championing of the European public's demands. The progovernment Der Kurier asserted that "the gray eminence in Paris was not Bulganin but Kennan"--a reflection of the wide European appeal of George Kennan's recent BBC lectures calling for new attempts to negotiate with Moscow.

French comment, despite some disappointment at the communiqué's failure to provide clearer support of France's North African position, also applauded the conference for having opened the way to

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East-West talks. The French also feel the conference accepted the French view that the alliance should expand nonmilitary cooperation and concern itself with developments outside the NATO area.

Despite approval in principle of intermediate-range missiles for European defense, several omens of future trouble appear in the conference reactions. The American embassy in Brussels notes the growth of considerable opposition in Belgium to acceptance of IRBM's. The head of the political section of Bonn's Foreign Ministry told reporters that although the United States had the legal right to introduce any long-range missiles it wished for its own forces, in fact such a move would create a political problem and require Bundestag approval.

Only the British Parliament has debated the conference's

results. The opposition Labor party used the 20 December debate to climax its bitter attack on the terms of stationing American planes and missiles in the United Kingdom, thus laying the groundwork for a possible re-opening of this question should Labor return to power in the next general election.

Labor "shadow" defense minister Brown charged that the British government lacked "anything like sufficient control" over its own destiny. Dissatisfaction with the political aspects of the conference was also shown by pro-American Laborite MP Denis Healey's assertion that NATO was in "the process of disintegration" because the alliance was frozen to outdated positions--presumably referring to its rejection of Moscow's and the British party's proposals for a nuclear free zone or a neutral belt in Central Europe. [redacted]

25X1

BONN READY FOR TRADE AND REPATRIATION AGREEMENT WITH MOSCOW

West Germany expects to conclude an agreement with the USSR early in 1958 which will meet some of its original demands on repatriation of Germans in return for granting Moscow a broad consular agreement and a three-year trade pact with quotas considerably above present trade levels.

When talks began in mid-July, the Germans expected to get a satisfactory repatriation agreement in return for a one-year trade agreement and without giving in to Soviet demands for a full-scale commerce and navigation treaty. Bonn has now greatly reduced its terms. Its draft proposal, under consideration by the Soviet negotiators, accepts Soviet demands

for a three-year trade agreement providing for total trade of \$936,000,000. If fulfilled, this would be a marked increase over the present annual rate of \$200,000,000.

As an annex to the trade and payments agreement, Bonn may sign a treaty of commerce and navigation, including a most-favored-nation clause. The Germans will also accept the Soviet proposal for a broad consular agreement providing in principle for the opening of consulates, instead of merely assigning consular functions to the embassies as originally proposed by the Germans.

The draft proposal on repatriation drops Bonn's original

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demand for the return of some 70,000 "administrative settlers" who went to Germany or joined the German army during the war. It now asks only for the 30,000 "treaty resettlers" in the USSR, who are persons of undisputed German citizenship transferred from the Baltic area under a Nazi-Soviet agreement. Bonn later intends to request the return of about 75 German scientists and their families now in the USSR.

Ambassador Lahr, head of the West German delegation to Moscow, expects these latest proposals to result in an agreement soon after the talks reconvene in mid-January. In a further effort to normalize relations with the USSR, Bonn is separately considering talks in Bonn for a liberalized cultural exchange program. [redacted]

25X1

ITALIAN CHRISTIAN DEMOCRATS PREPARE FOR ELECTIONS

The Christian Democratic party is starting to organize for the spring national elections, aware that as the party controlling the Italian government for the past ten years, it will be the major campaign target of the other parties. Secretary General Fanfani reportedly plans to use the elections as a means of building a homogeneous party organization, but he will be handicapped by the necessity of not antagonizing potential coalition partners during the campaign.

The Christian Democratic national council is scheduled to meet in January to decide on a method of establishing the party's electoral lists. Fanfani has been building a strong organization in the past four years, and it is anticipated that the party bureaucracy will give priority to its militants at the expense of many of the present deputies. The new parliamentary group therefore is likely to be more responsive to party discipline than the present one.

Fanfani apparently also is attempting to reduce the electoral activity of Catholic Action's conservative Civic Committees and of the left-of-center Italian Christian Workers Association in order to keep the campaign more closely under

party control. These nationwide, mass-membership Catholic organizations draw their support from the same groups as the Christian Democrats and compete with the party's fund-raising and organizational efforts. Moreover, there are sometimes embarrassing ideological differences, as in the case of the Civic Committees' previous attempts to include extreme rightists in an anti-Communist electoral alliance.

A 100-man special committee has been set up to plan the party platform. It is expected to emphasize economic and social questions, and to call for a foreign policy adapting Italy's traditional attitudes to present international situations. The local party federations are to play up whatever accomplishments of the government are most popular in their particular areas.

Christian Democratic election strategy will probably be formed in the expectation that the party will have to depend on the votes of at least one other party to form a government. The most likely partners are the Democratic Socialists, but the Liberals may be an alternative, and the Christian Democratic campaign cannot antagonize either possible partner. [redacted]

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POLITICAL CRISIS THREATENS IN SOMALIA

A ministerial and party crisis threatens in Somalia as a result of growing tribal factionalism and discord within the government over ties with Cairo. The prime minister and the minister of the interior, who represent different tribal groups, are feuding and have threatened to resign. Two others of the six ministers have recently tried to resign.

Tribal disunity in this UN trust territory has been reflected among Somali officials despite the Italian administration's efforts to keep the government functioning and to teach the fundamentals of local government to the representatives of desert nomads. The Somali Youth League, which controls 43 of the 60 Somali seats in the

legislature and has a virtual monopoly of educated personnel, may split into its main tribal components.

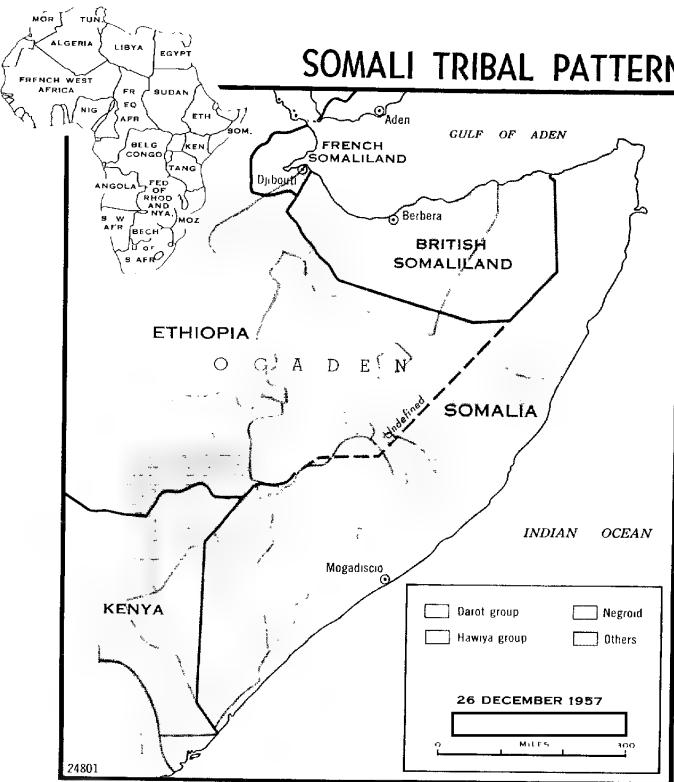
Tribal tension in the league and in the government it dominates is polarizing around the prime minister, who is of the Hawia tribe, and the minister of the interior, who belongs to the Darot tribe. The Darots, who are in a minority in the government, complain of discrimination and accuse the prime minister of being a dictator. The minister of interior has publicly accused the prime minister of implication in an assassination attempt against him.

Dissension within the Youth League also results from Cairo's growing influence in Somalia's

affairs. In August 1957, pro-Egyptian Hagi Mohamed Hussein was elected president of the league. His victory in part reflected the nomads' belief that the pro-Western leaders of the league residing in Mogadiscio had become too urbanized and had lost touch with their tribal supporters. Hagi Mohamed also profited from his absence from Somalia since 1952 as a student in Cairo and his noninvolvement in local party politics. There now are about six pro-Egyptians on the 19-member central committee of the league.

Hagi Mohamed returned to Somalia in late November and almost immediately started interfering in politics. He has

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publicly criticized the Italian administration and has been selected as the league's chief delegate to the Afro-Asian Solidarity Conference at Cairo this month, where he is expected to attack Western influence in Somalia. He has tried to replace several pro-Western Somali political leaders.

On 10 December, two ministers tried to resign from the government in protest over Hagi Mohamed's activities, but the Italian administrator refused to accept the resignations.

More recently the prime minister and the minister of the interior threatened to resign. The Somali prime minister, called back from Khartoum, has been conferring with political leaders to resolve the situation.

Hagi Mohamed will probably use his position as league president to make a strenuous effort to become the new prime minister following the 1958 legislative elections. Should he be victorious, Somalia is likely to become more closely oriented to Cairo.

25X1
25X1

ARGENTINE PRE-ELECTION DEVELOPMENTS

The major Argentine political parties now have selected presidential candidates for the general elections scheduled for 23 February. Important leaders of the still-outlawed Peronista party are to meet with Peron in Caracas on 28 December to discuss election strategy, although Peron no longer controls all Peronist groups. Peron may revise his existing instructions calling for sabotage of the elections.

The two main contenders in the general elections continue to be the two factions of the old Radical party which split last January into the People's Radical Civic Union (UCRP) and the Intransigent Radical Civic Union (UCRI). The factions split mainly over the timing and method of nominating Arturo Frondizi, who is now the UCRI's leader and presidential candidate. The UCRP's presidential candidate, chosen in party primaries on 15 December for both national and provincial offices, is Ricardo Balbin. Both Frondizi and Balbin have campaigned on nationalistic plat-

forms stressing nationalization of petroleum resources and public utilities, although both have indicated privately they might be somewhat more realistic and flexible after assuming power.

More conservative opinion is represented by a number of small parties which individual-

ARGENTINA

CONSTITUENT ASSEMBLY ELECTIONS

28 JULY 1957

	PERCENT OF VOTE	SEATS WON	25X1
UCRP	24.19	75	
UCRI	21.25	77	
OTHER PARTIES	30.25	53	
BLANK VOTE	24.31	NONE	
	100.00	205	

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ly have little prospect for national office under the electoral system which allotstwo thirds of the seats in the lower house to the winning party and the other third to the runner-up. So far, however, informal discussions of coalitions

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among the smaller parties have come to naught.

The followers of Peron, who are considered largely responsible for the two million blank ballots cast in last July's constituent assembly elections, have adhered to Peron's continued ban on joining electoral coalitions. Several groups of his former supporters have, however, disobeyed his orders not to form new parties designed to circumvent the government ban on the Peronista party. Of these neo-Peronista parties, two have tentatively nominated for president Alejandro Leloir, last presi-

dent of the Peronista party. Leloir would be ineligible for the presidency under a government decree disqualifying former Peronistas from holding office, and it is not clear whether he would be able to serve even as an elector. The electoral college meets on 17 March.

25X1

PEIPING'S OFFER TO SETTLE OVERSEAS CHINESE CITIZENSHIP ISSUE

Peiping's efforts to win additional adherents among Overseas Chinese may gain new momentum from the Indonesian parliament's approval on 17 December of a treaty allowing Overseas Chinese the choice of retaining Chinese citizenship or becoming Indonesian citizens. Willingness of Peiping to abandon the traditional view that all Overseas Chinese are automatically citizens of China is intended to contrast with Chinese Nationalist equivocation on the citizenship issue and to make a favorable impression on Southeast Asian governments.

More important, the Chinese Communist proposals seem designed to foster the impression that Peiping is prepared to make substantial concessions to achieve a satisfactory set-

tlement of the issue. Taipei on the contrary merely urges the Overseas Chinese to improve their relationship with the government of the country of residence.

During a recent meeting of the Overseas Chinese Affairs Commission, an official Chinese Communist agency, Peiping reaffirmed the proposals made by Chou En-lai at Bandung in 1955 that Overseas Chinese be permitted to choose between Chinese citizenship or citizenship in the country of residence. Peiping's new "work program" for Overseas Chinese de-emphasizes the usual insistence on "patriotism toward the motherland" and contains none of the customary appeals for Overseas Chinese investments and remittances.

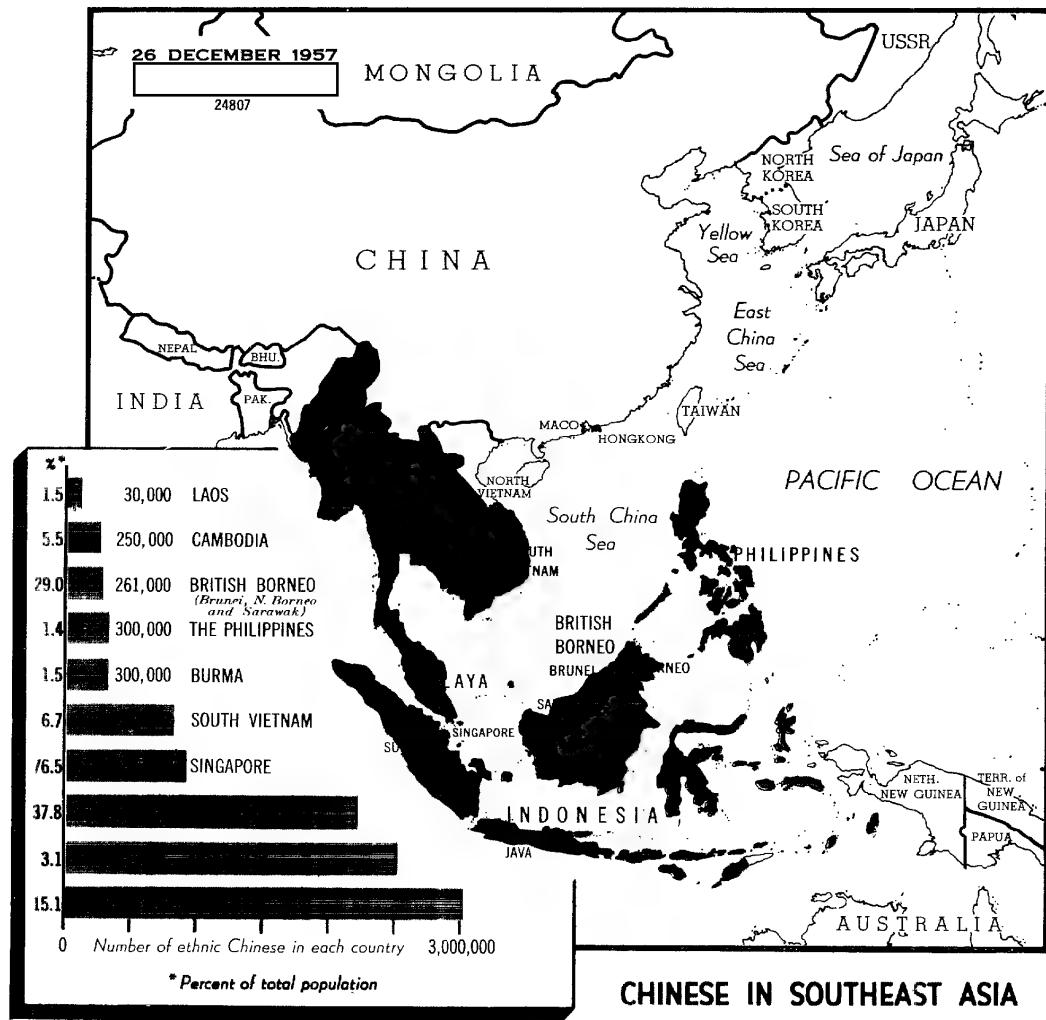
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One of Peiping's specific objectives in restating its policy may have been to improve relations with the newly independent Federation of Malaya, which has a large Chinese minority.

The response of Southeast Asian governments to this and previous approaches by Peiping has not been enthusiastic. These highly nationalistic regimes regard this problem as an internal matter over which they exercise unilateral jurisdiction.

Even Indonesia, the only country in the area to respond favorably to Peiping's proposals for settling the dual nationality issue, stalled for more than two years before parliament acted on the citizenship treaty. This action may well have been taken more in recognition of China's strong support on the West Irian issue than from a change of heart on the part of the Indonesian government toward the Chinese Communist proposals.

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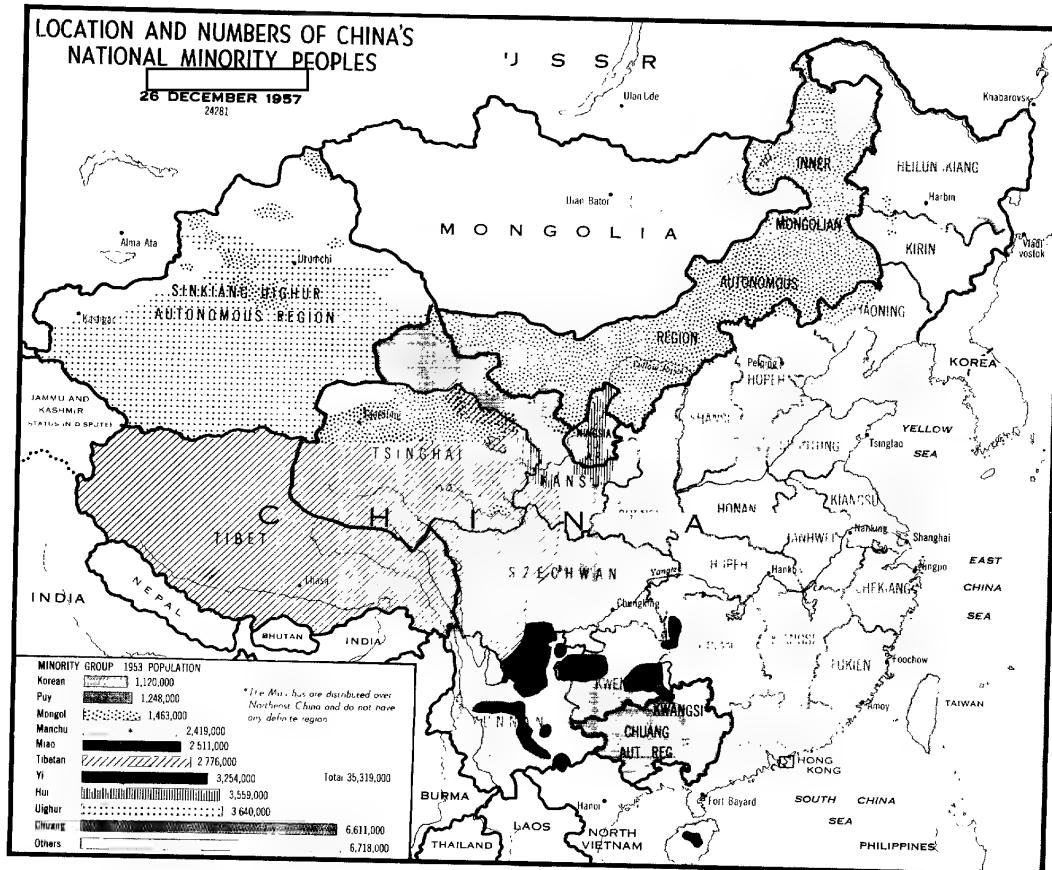
CHINESE COMMUNISTS TO TAKE HARDER LINE ON MINORITY PEOPLES

Peiping's attacks on "parochial nationalism" among ethnic minority groups in China reflect a failure to win over these people by a conciliatory policy of gradual assimilation. At a symposium of the Nationalities Affairs Commission on 20 November, it was announced that nationalism among minority groups must be vigorously opposed. Since then the evils of this attitude have received increased emphasis--in contrast with the previous stress on the dangers of "chauvinism" among the Chinese majority.

In the past, the regime has made an elaborate show of favoritism toward China's 35,000,000

members of national minorities. They have been paid premium prices for their goods and provided with essentials at reduced cost. Out of deference to local prejudices, the regime has moved slowly with "land reform" in national autonomous areas and has sought to minimize local resentment by replacing Chinese officials with native cadres. Peiping has publicized its program to foster the survival of native customs, and one of its projects, originally scheduled for completion by 1960, called for the creation of more than 15 new written languages to preserve native dialects.

A new approach toward the ethnic minorities was foreshadowed

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last August when Ulanfu, chairman of the Nationalities Affairs Commission, declared that the "persistence of nationalistic ideas" should be corrected by intensified ideological education. The secretary general of the Chinese Communist party told the central committee plenum on 23 September that opposition to local nationalism was now just as necessary as opposition to "great Han chauvinism"--an attitude of overbearing superiority on the part of ethnic Chinese--which the regime had previously stressed.

There are some indications that Peiping intends to take a harder line even in Tibet, where open resistance during the past year has made the regime chary of applying pressure to the population. The main speaker at a 22 November conference of

Tibetan cadres branded local nationalism as a reflection of "bourgeois capitalism" and denounced minority cadres who mistreated Chinese officials and rejected their "assistance."

The new, harsher line designed to gain "cooperation" from minority peoples was reaffirmed in speeches at the provincial Communist party congress in Yuanan which ended on 10 December. Delegates were told that national characteristics--which had been used as a screen for opposition to "socialism"--are the "main target" of the party in minority areas. "Severe action" was called for in dealing with those who have an "improper national view or a reactionary bourgeois standpoint."

25X1

BURMESE PRESSING PROPAGANDA OFFENSIVE AGAINST INSURGENTS

The Burmese government, using recently defected members of the insurgent Burma Communist party (BCP), is engaged in a propaganda offensive which may weaken insurgent morale and undercut the "peace through negotiations" campaign of the party leadership and associated overt front groups. The campaign, apparently conceived and operated by the Burma War Office's psychological warfare department, has a twofold purpose: to cast doubt on the wisdom of continuing the insurrection, and to advertise the leniency with which the government treats insurgents who "exchange arms for democracy."

A group of 14 second-echelon Communist leaders, who have surrendered at various times during the past year, is now

touring the country under War Office auspices, making damaging speeches against the party leadership and urging their colleagues to leave the jungle. They all attack the insurrection as no longer justifiable, and at least one of them has described as a major blunder, dictated by "international Communism," the party's original decision to rebel in 1948. Another continuing theme in their speeches is the Burmese government's independence of "imperialist" dictation and its dedication to the development of a socialist state in Burma. In essence, the War Office, through these defectors, is seeking to expose the Communist party's insistence on a "negotiated settlement" as a meaningless gesture which will merely prolong unnecessarily the people's suffering.

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To increase the attractiveness of surrender, the government is also embarked on a widely advertised scheme to "rehabilitate" surrendered insurgents through work brigades and in some cases financial assistance to start a "new life" of their own choice.

Although Communist chief Thakin Than Tun's determination to hold out for a negotiated settlement appears unaltered, the mass surrender of 105 Communists from Pyinmana District

in Central Burma in mid-November may have been the first large-scale surrender at least partially induced by the psychological offensive. Burmese leaders appear confident there will be more surrenders en masse in the near future. The campaign, moreover, is well calculated to lower insurgent morale, and there is already some indication that it is taking the wind out of the campaign of the Communist-front "Internal Peace Committee" for negotiations. [redacted]

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SINGAPORE CITY COUNCIL ELECTIONS

The results of Singapore's city council elections on 21 December, in which leftists made a strong showing, were a severe blow to the strongly anti-Communist government of Chief Minister Lim Yew Hock and his Labor Front party.

In the vote for the council's 32 seats, the Labor Front won only four of the 16 it contested. In contrast, its much more leftist-inclined partner, the People's Action party (PAP), was successful in 13 of its 14 contests. The Workers' party, a strongly leftist group recently organized by former Chief Minister David Marshall, elected four of its five candidates. Of the remaining parties, the conservative Liberal Socialists won seven, the United Malay Nationalist Organization two, and independents two.

The Labor Front's opponents apparently successfully exploited the suspicion among Singapore's predominantly Chinese population that the government's tough antisubversive program is, in fact, a substantial threat to Chinese culture. One of Lim Yew Hock's chief targets has been

the Chinese schools, some of which are heavily infiltrated by Communists.

The election results also appear to limit further Lim's chances of forming a coalition of Singapore's three largest parties--the Labor Front, PAP, and the Liberal Socialists--before the more important legislative assembly elections tentatively scheduled for next September. Lim has been trying for the past year to bring together the "best" elements of these parties. Although his chances of achieving such an alignment were enhanced when the extreme leftist leaders of the PAP were arrested last summer, subsequent efforts to reach an agreement among the parties not to run competing candidates failed when the Liberal Socialists entered a full slate of 32 candidates for the election. Moreover, the strong showing made by PAP indicates that Lim may be limited to the role of junior partner in any merger or coalition which may result.

The success of the Workers' party, particularly striking in view of its recent formation,

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25X6 establishes it as a significant factor in Singapore politics.

[redacted] Marshall can be expected to use his considerable energy in grooming the party for vigorous ac-

tion in next year's elections on an opportunistic left-wing platform designed to destroy Lim Yew Hock and the Labor Front [redacted]

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PART III

PATTERNS AND PERSPECTIVES

SOVIET DIPLOMACY EXPLOITS TECHNOLOGICAL ACHIEVEMENTS

The course of Soviet foreign policy since Moscow's ICBM announcement on 26 August reflects an effort by the Soviet leaders to convey the impression that their technological achievements have given them a political and psychological advantage over the Western powers which can be translated into diplomatic gains. Moscow immediately assumed a more militant posture on the international scene and attempted to impress on the world that the East-West balance of power had shifted in favor of the Sino-Soviet bloc.

The principal objectives of the present diplomatic offensive, highlighted by Premier Bulganin's letters, are to demonstrate that the West's alleged postwar "positions-of-strength" policy has not forced Communist power to withdraw from its forward positions, particularly in Central Europe, and to induce the West to legitimize postwar Communist gains by formally recognizing the existing status quo.

Appraisal Since ICBM

Moscow's actions over the past four months suggest that the Soviet leaders believe their prospects for achieving basic foreign policy objectives of disrupting the Western coalition, isolating the United States, and bringing about the withdrawal of American military power from the Eurasian continent are now more favorable than at any time since World War II.

The aim of recent Soviet official pronouncements and propaganda is to persuade American allies that the threat of American retaliatory capacity on which they formerly relied as a shield to deter Communist

aggression is no longer effective. Moscow believes this line will not only achieve greater acceptance of its offer of a general "peaceful coexistence" settlement based on the status quo, but will also prompt many non-Communist governments to reappraise the advantages of close alignment with and dependence on the United States.

The Soviet leaders appear confident they can exploit widespread concern, particularly in Western Europe, over the danger of becoming involved in a nuclear war between the two superpowers to encourage tendencies toward neutralism and disengagement. They believe their tacit assurances of immunity for countries which abandon alliances with the United States in favor of neutral policies will hasten these trends.

In his interviews with American correspondents in November, Khrushchev predicted that "a movement will develop in European and Asian countries against NATO, against the military bases on their territories." "You will see," he said, that one day these nations "will awaken from their slumber and recognize the folly of depending on NATO and such alliances for their protection."

Moscow's actions in the Syrian-Turkish dispute of September-November also suggest that the Soviet leaders believe that one of the most important consequences of their technological advances has been an increased reluctance on the part of the West to engage in war or pursue policies carrying serious risks of war. In their view, the USSR's enhanced deterrent power will increasingly ~~neutralize~~ Western policy, give

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Soviet diplomacy greater freedom of action, and increase the USSR's ability to take advantage of opportunities to advance Soviet objectives with less risk of effective Western counteraction. Khrushchev claimed on 14 November that "nowadays the balance of forces is such that even Mr. Dulles fears to go beyond the brink."

The Russians, moreover, probably believe that the USSR's increased prestige and political stature will increase the interest of governments in underdeveloped and uncommitted areas in the Soviet Union as a source of technological and economic assistance and encourage them to pursue their mediatory efforts on such issues as suspension of nuclear tests and nonaggression pledges.

Finally, the Soviet leadership shows confidence that the strength and stability of the satellite regimes and the influence of Communist parties and front organizations in the free world will be enhanced by the USSR's increased military strength and international prestige.

The Moscow declaration of 21 November by the 12 bloc parties expressed confidence that there has been "a decisive switch in the balance of forces" in the world "in favor of socialism" and declared that the "peace camp" is now capable of asserting "ever-increasing influence on the international situation." The reaffirmation of the 20th party congress lines regarding peaceful transition to socialism and united fronts with non-Communist forces indicates that the bloc leaders view these tactics as the most effective means of applying pressure on free world governments to modify their foreign policies in a direction favorable to bloc interests.

Exploitation of Science Gains

Moscow's recent claims that the balance of power has turned against the West are by no means unprecedented. In his speech to the Supreme Soviet on 8 February 1955, Molotov, then foreign minister, repeated five times the claim that the "correlation of forces" between the two rival camps "has definitely changed to the advantage of socialism." He made the first Soviet claim of nuclear superiority and warned that any future aggressor should not forget "the immeasurably increased might of the Soviet Union."

However, Molotov's boasts were motivated by need to offset the ratification of the Paris agreements incorporating a sovereign and rearmed West Germany into the Western alliances. They lacked the confidence, credibility, and impact which the ICBM and earth satellites have given Moscow's present claims to superiority.

The USSR's first major statement on the implications of the ICBM--Air Marshal Vershinin's Pravda interview of 8 September--directly challenged the efficacy of American deterrent capabilities. Vershinin disparaged the basic assumptions of American strategic doctrine based on nuclear and air superiority. "The American monopoly of atomic and hydrogen weapons," he said, "has long since become a thing of the past....The widely advertised American air doctrine is utterly untenable from the military point of view." He declared that "rocket weapons today make questionable the wisdom of developing bomber forces because the former are more dependable and surer weapons."

Vershinin established the line that has since become the

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central thesis of Soviet official pronouncements and propaganda, namely, that modern weapons developments have shattered the strategic structure and doctrine of NATO, that the United States can no longer rely on the decisive superiority of its striking power, and that it can no longer launch that power from foreign bases on the bloc's periphery and remain immune from Soviet retaliation.

Pravda on 7 October carried this thesis a step further, arguing that the United States must now make major revisions in its foreign policy and that American leaders must inevitably face up to three questions: the necessity of peaceful co-existence, an end to the arms race, and cessation of the cold war. On 17 October, Pravda declared that "American military influence in Europe is declining" and that the "whole NATO system based on domination by the United States and the subservience of the other partners is collapsing."

One of the most striking examples to date of Soviet confidence appeared in a speech delivered on 29 November to a party aktiv for the Moscow region by Pospelov, a secretary of the party central committee and an alternate member of the party presidium. According to Pospelov, "the launching of two artificial earth satellites has literally shaken the whole world, plunged our enemies into despair and panic, heartened and inspired our friends, colossally raised the authority of the first socialist country in the world, and turned minds and hearts of tens of millions of people in capitalist countries to our side."

Private Warnings

Soviet diplomats have been pressing these same arguments on free world representatives

in private conversation. A Soviet diplomat told an American official on 18 November that the balance of military power was changing in the USSR's favor and that the Russians had enough ICBM's to destroy the United States. He said 50 to 100 "are enough." He predicted that the NATO heads-of-governments meeting would sound the "death knell of Europe" because the establishment of American missile bases in Europe would mean that these countries would be the first to be destroyed in the event of war.

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Tactics on Disarmament

The Soviet government has selected the disarmament question for a major test of strength with the West. On the day following the ICBM announcement, Soviet delegate Zorin denounced the Western proposals at the London talks as useless and demanded that the negotiations be transferred to the public forum of the UN General Assembly. This attack and his refusal to fix a date for a resumption of the subcommittee's talks were the culmination of a long series of Soviet maneuvers to bring about a deadlock on the issue of ending nuclear weapons tests.

In the General Assembly debate in November, the Soviet delegate abruptly rejected efforts by neutralist states to devise a compromise formula for expanding the UN disarmament machinery. Deputy Foreign

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Minister Kuznetsov warned on 19 November that unless the General Assembly adopted a hastily contrived Albanian amendment to raise the membership of the Disarmament Commission to 32 members--16 for the West and 16 Communist and neutralist states--the USSR would boycott further UN negotiations.

This threat was based on the assumption that a temporary boycott of UN talks would gain time for Soviet diplomacy to exploit the impact of the scientific gains as a means of putting greater pressure on the West for concessions to Soviet views, particularly on a test suspension. Khrushchev told a visiting French official last September that the USSR could wait, since "it is now strong."

In an interview on 14 November, he predicted that a Soviet boycott would induce world public opinion "to bring greater pressure to bear on the governments of the capitalist countries," which eventually would be "compelled to seek agreement." A member of the Soviet UN delegation stated on 18 November that it would be good if there were no disarmament negotiations for one year so that pressure could build up for new decisions in the proper forum--meaning acceptance of the Soviet proposal for nuclear test suspension in a "balanced" Disarmament Commission.

In addition to Moscow's desire to generate pressure on the Western position, it is likely that the Soviet withdrawal from the restricted subcommittee talks was motivated by a decision to avoid being

drawn into detailed negotiations on such issues as inspection and control. Moscow's major interest in the disarmament issue is apparently to exploit it in its political warfare against the West. These aims can be more effectively advanced in a public forum such as the UN General Assembly or in a world disarmament conference as proposed by Foreign Minister Gromyko on 21 December.

Moscow desires to escape growing Western pressures which have compelled it to devise new positions to counter Western proposals. As early as last July, Khrushchev, during his tour of Czechoslovakia, termed the UN Disarmament Subcommittee a "NATO committee" and suggested participation of more countries.

The Soviet leaders believe that pressures and trends in world opinion demanding a nuclear test and weapons ban will grow with every new development in modern weapons and that the USSR's proposals have placed it in a good position to extract the maximum political benefit from this sentiment.

Exploitation of Syrian Crisis

Moscow's action in deliberately inflating the Syrian crisis into a major war scare provides the best example to date of the Soviet leaders' conviction that their enhanced prestige and power position have increased their ability to expand Soviet influence and inflict defeats on their Western opponents. The Russians probably regarded the Syrian issue as another important test of strength with the United States.

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In view of the setback to Soviet aims in the Middle East represented by the dismissal of an anti-Western premier in Jordan last April, the Soviet leaders probably believed that the United States would attempt to follow this success with a move to unseat the pro-Soviet leftist regime in Syria. The coup in Damascus in August, which marked a further shift of power to pro-Soviet elements, followed by American and Turkish reactions indicating concern and displeasure, set the stage for a confrontation of Soviet and American power in the Middle East.

In addition to the immediate aim of forestalling Turkish or other foreign military intervention and stiffening the resistance of the Syrian regime against outside pressure or internal action designed to bring about its overthrow, the Soviet moves were intended to: (1) enhance the USSR's self-appointed position as champion of Arab nationalism and the rights of small states to pursue neutralist policies or nonalignment; (2) expand Soviet influence and prestige throughout the Asian-African world and thereby strengthen Soviet efforts to counter the increased activity of American diplomacy in the Middle East; and (3) advance the basic Soviet aim of weakening the Western alliance by generating suspicion of American intentions and mistrust of American leadership.

Moscow endeavored to throw the United States and Turkey on the defensive by claiming that it possessed "irrefutable proof" they were planning an attack on Syria. Following the pattern of Soviet actions in the Suez crisis of November 1956, Moscow resorted to the device of calculated ambiguity in public and private warnings intended to imply that the USSR might intervene unilaterally in the event of a Turkish attack. This

strong pressure was maintained until the end of October, when it became apparent that Soviet tactics were threatening to backfire and alienate Arab and Asian governments.

Indications that a UN vote would divide the Arab-Asian bloc led Moscow to relax its pressure tactics while it was still in a good position to claim credit for having foiled an imperialist-inspired attack on Syria.

Status Quo vs. Arms Race

Moscow's present diplomatic offensive against Western efforts to strengthen NATO's military posture is based on a combination of ostensibly constructive proposals and blunt warnings regarding the dangerous consequences of granting the United States missile launching bases. The constructive proposals are designed to undermine the rationale and discredit the motives of American proposals by persuading the United States' allies that such measures are unnecessary. The warnings, on the other hand, are intended to impress on these countries that such measures are both futile and dangerous and can lead only to catastrophe.

The proposals for easing tension and reducing the danger of nuclear war set forth in Bulganin's letters to the heads of government of NATO and UN members are aimed at persuading Western public opinion that the USSR is ready to negotiate a general political settlement based on the status quo. These public overtures have been supplemented by private proposals by Khrushchev and Bulganin to Western ambassadors in Moscow for Western recognition of the status quo in Eastern Europe in exchange for a Soviet agreement not to attempt to overthrow capitalist regimes.

Bulganin's letter to President Eisenhower stated in

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succinct terms the choice Moscow is seeking to place before the West: "If we are to proceed from the interests of insuring universal peace, it is necessary, in my mind, to recognize unequivocally the situation as it is in the world today, with both capitalist and socialist states in existence. We cannot, any of us, fail to take into account the fact that any attempt to change the situation from without, by force, to upset the present status quo, and any attempt to force any territorial changes would lead to catastrophic results."

Having confronted the West with a choice between a status quo settlement on Soviet terms and a catastrophic arms race, Moscow is seeking to demonstrate that the West has no real alternative but to accept the former. Bulganin's letters stress the alleged futility of Western efforts to restore the military balance of power. In his message to Premier Gaillard, Bulganin stated bluntly that, "It must be admitted that there cannot be and are no guarantees that the continuation of the competition in production of weapons of increasingly greater destructive power now being imposed by NATO leaders would enable them to overtake, much less outstrip, the countries against which they are carrying out their military preparations."

Limited War Impossible

Another significant aspect of Moscow's diplomatic campaign is the Soviet emphasis on the impossibility of conducting a limited war. Moscow's purpose is to prevent the United States from increasing its freedom of action by developing a doctrine of limited nuclear warfare.

Soviet diplomatic notes and propaganda during both the Suez and Syrian crises strongly rejected the idea that local wars in the nuclear age could be kept from spreading. Bulganin's letters stated that it would be a "dangerous delusion to believe

that war...can be confined to a single area." He contended that both modern weapons developments and the global dimensions of "antagonistic military alignments" make it impossible "to keep war within definite geographical boundaries."

Calls for East-West Talks

The principal purpose of the Soviet leaders' frequent calls for another high-level conference, presumably at the heads-of-governments level, is to enhance the image of a peaceful USSR, operating from a new position of strength, seeking ways to reduce tensions and reach an accommodation at the time when the NATO powers are taking steps to strengthen their military posture and tighten their alliances.

In calling for either bilateral Soviet-American talks or a broader meeting of representatives of capitalist and socialist countries, the Soviet leaders probably anticipate that the United States would reject their proposals but that some of America's allies would be encouraged to postpone any strengthening of their defense establishments and NATO generally until they had had a chance to explore Soviet intentions in a new round of talks.

Moscow's estimate of the West's probable reaction was indicated by Khrushchev's statement on 14 November that, "I doubt that such a meeting will take place in the near future." This remark also suggests that despite constant repetition of calls for a new summit conference, the Russians would prefer to postpone such talks for some time in the belief that the growing political impact of their technological achievement in the free world will progressively weaken the West's bargaining position and force the United States and its allies to accept Soviet terms for a conference.

While the Soviet rulers want to forestall the establishment

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of American missile bases in Europe, it is unlikely that they will make any concessions to achieve this. They have explicitly ruled out the questions of German reunification and the status of Eastern Europe as subjects for negotiation. Their only real interest in new talks is to extract from the West some form of recognition of the "actual balance of forces" and acceptance of the status quo which would legitimize postwar Communist gains.

Khrushchev described Soviet terms in an interview on 7 October: "One thing only is needed (to ensure peace). To recognize what has historically taken place," i.e., the existence of the USSR, China, and other Communist states. "There must be no interference in their affairs. We, for our part, proceed from the realistic conditions of the existence of such capitalist states as the United States, Britain, France, and others and that the social structure of these countries is the domestic affair of their peoples....To

live without war on a basis of peaceful competition--such is the foundation of coexistence."

Conclusions

The Soviet leaders' confidence in the strength of their present position vis-a-vis the West and the prospects for future gains seem to preclude any early possibility that they might be interested in serious negotiations on terms which the West could accept. Despite their extravagant claims about a decisive shift in the East-West balance, it is unlikely that they believe their ICBM has produced any basic change in the strategic equation. The Russians recognize, moreover, that Soviet advances will act as a spur to Western efforts to restore the balance. Bulganin remarked to [redacted] 25X1

on 4 December that although one side or the other might gain a temporary lead in some particular field, this could not change the basic situation. [redacted] 25X1
[redacted] 25X1

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FINLAND'S ECONOMIC DIFFICULTIES

Finland's conclusion of a trade agreement on 4 December with the Soviet Union underlines its economic dependence on the Sino-Soviet bloc. Finland devaluated its currency last September to preserve its Western markets, but the nonpolitical government of Premier von Fieandt which took office on 29 November faces a formidable task in stabilizing the country's economy.

Trade With the Bloc

The Finnish-Soviet trade agreement for 1958, within the

framework of an over-all five-year agreement for 1956-60, provides for a considerable increase in Finnish imports from the USSR, which this year will total an estimated \$137,500,-000. The most important increases during 1958 call for 480,000 metric tons of crude oil for increased domestic refining, compared to 220,000 in 1957, and 500,000 metric tons of residual fuel oil, compared to 300,000 in 1957. Gasoline shipments will decline, however. In 1957 the bloc covered about 60 percent of Finland's petroleum needs.

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As a result of the various increases in imports, there should be a decline in Finland's normal export surplus to the USSR, which prior to 1957 was absorbed by triangular trade arrangements with various Soviet satellites. In June 1957 a supplementary trade protocol was



VON FIEANDT

negotiated during the Khrushchev-Bulganin visit to Helsinki in order to bring the bilateral trade into closer balance. Finland's exports to the Soviet Union this year are expected to reach \$150,000,000, about \$12,500,000 in excess of imports.

Cumulative trade statistics for the first eight months of 1957 indicate that the USSR supplanted Britain as Finland's leading supplier. Imports from the Sino-Soviet bloc rose to 32.8 percent of total imports compared to 24 percent for the same period in 1956. In the first eight months of 1957, the bloc took some 28.1 percent of Finland's exports, compared to 26.6 percent for the same period in 1956.

Peiping radio announced on 18 December the conclusion of a one-year Sino-Finnish agreement, for trade totaling \$25,000,000. This is somewhat lower than that under the previous agreement from 1 May 1956 to 30 April 1957.

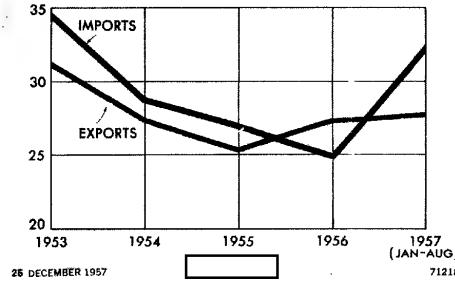
Since April, trade has continued informally. Finnish exports to China for the first eight months of 1957 totaled only \$5,125,000, while imports were \$4,400,000.

Trade With the Free World

The Finns devaluated their currency in mid-September by almost 40 percent in an effort to stimulate their export industries, adversely affected by high production costs and slackening in Western demand for wood products. In an effort to facilitate trading with the West, Finland has also reached an agreement with a number of Western European countries for a multilateral trade and payments arrangement, liberalizing trade. It is not yet possible to determine whether devaluation will have the desired effect on the export industries. Unemployment figures stood at about 41,000 at the end of November, compared to 16,000 a year ago, and consumer prices had by mid-November risen 6.5 percent over the September level.

In the long run, Finland cannot remain aloof from economic integration developments in

**FINNISH TRADE WITH THE SINO-SOVIET BLOC
AS A PERCENTAGE OF TOTAL TRADE 1953-1957**



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Western Europe if it is not to lose its markets there and gradually become an economic satellite of the USSR. The government has already decided to join OEEC, and particularly EPU, as soon as possible, despite a warning in April from the Soviet

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ambassador against participating in Western European free trade plans. Finland's continued interest in the proposed Nordic common market reflects a hope that by working in concert with its Scandinavian neighbors, it can reduce Soviet opposition to Finland's participation in Western economic integration plans.

Internal Political Factors

Firm government action to cope with Finland's growing economic difficulties has been hampered by bitter political antagonisms. The various parties, maneuvering for advantage in next July's parliamentary elections, were unable to form a coalition parliamentary government to replace the Agrarian-Liberal cabinet which resigned on 18 October. After a six-week cabinet crisis, a nonpolitical government headed by Rainer von Fieandt, former head of the Bank of Finland, took office on 29 November.

Sharp and prolonged dissension within the Social Democratic party and the Confederation

of Trade Unions (SAK)--based largely on personal rivalries-- threatens to split both organizations. Such a development would benefit the Communists, both in the labor movement and in the approaching parliamentary elections. The Communist-front Finnish People's Democratic League (SKDL) already has 43 seats in the 200-man Diet as compared with 54 for the Social Democrats.

The Von Fieandt government, which may well remain in office until the July elections, has as yet given little indication of the internal economic policies it expects to pursue, except to favor conservative budget and money policies and to urge self-restraint on the part of the various economic interest groups. The chief hope of arresting the drift toward an eastward orientation of the country's trade seems to lie in the adoption of austerity measures to bring the economy into balance and improve Finland's competitive position in Western markets. [redacted]

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INCREASING FACTIONALISM IN THE SOUTH KOREAN LIBERAL PARTY

Factionalism is increasing in the South Korean Liberal party because of the declining health of Party Chairman Yi Ki-pung and the maneuverings of other party leaders who oppose his leadership and are aware of his disability. Should Yi be forced to retire from active politics, the ensuing struggle for political advantage within the party would be difficult for even President Rhee to control. The party, in the meantime,

faces a serious dilemma over how to conduct its campaign for the 1958 National Assembly elections, which will probably be held in May.

Over the past year and a half, an increasing interdependence has evolved between Rhee and the Liberal party which has modified the President's long-time role as a "lone-wolf" political operator. This new relationship began to develop after

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the assassination of army counterintelligence corps chief Lieutenant General "Snake" Kim, in January 1956, which eliminated perhaps the last independent source of political power available to Rhee, and after



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the election of Democratic party Vice President Chang Myon in May 1956. Contributory factors were the steady rise of popular dissatisfaction with administration and Liberal party conduct of public affairs, the growth of a strong opposition party, and an increasingly "sophisticated" populace which is becoming less vulnerable to government pressure and intimidation.

The consequence of these developments has been a curtailment of Rhee's freedom of action and the establishment of close cooperation between the President and the Liberal party. Although Rhee continued to shift government officials virtually at will and to prevent the adoption of proposals he opposed, his grip on political and state affairs gradually weakened. Liberal party matters were largely delegated to Yi. Negotiations on foreign aid and a status-of-forces agreement this year involved much less presidential direction than heretofore. As Rhee's

popularity diminished, Yi increased his control over the party and most of its mass affiliates by streamlining the party organization and gathering power in his hands and those of his friends.

Failing health, however, may force Yi to relinquish some of his power and perhaps to retire from active politics. He is also under increasing attack from a large number of Liberal assemblymen who fear they will not be returned to office in next year's elections without strong police support.

They oppose Yi's moderate approach to the campaign and his unwillingness to use force to ensure Liberal victories. Their dissatisfaction crystallized over a compromise election law, now being debated by the assembly, which Yi negotiated with opposition leaders and which is designed to increase opposition scrutiny of voting procedures. There is evidence that Yi hopes to head off



YI KI-PUNG

challenges from his own party by seeking as allies persons previously not active in the party. The appointment of Yi's old political crony, Ho Chong, as mayor of Seoul may reflect this effort.

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Until recently the rising party factionalism has not had a significant effect on Yi's standing with Rhee. Yi has continued to appear secure, both because Rhee eliminated other leaders of comparable stature by his long-time divide-and-rule direction of the party and because he implicitly trusted Yi not to become a rival. This was so despite reports that Yi is negotiating with Democratic party leaders for a conservative coalition when Rhee dies. For the first time in many months, however, Rhee recently failed to support Yi. He blocked the investigation of a mayoralty election which the Liberals won by fraud, after Yi had pledged to punish the offenders.

These adverse developments are augmented by the Liberal party's difficulties in selecting strong candidates to run in the assembly elections, opposition threats to boycott an unfair vote, and police unreliability. The party also is uncertain whether to whitewash election irregularities or to

punish guilty officials, thus risking an impairment of party machinery just prior to the campaign. This suggests that the Liberals will experience considerable disunity well into the election period.

Despite Rhee's recent failure to support Yi, the process of further delegation of authority to subordinates is likely to continue,

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This assumes, however, that Yi's disability does not become acute and that he retains the ability to head the pro-Rhee machine. Should Yi be forced to retire, the present disunity would almost certainly lead to a fragmentation of the Liberal party, many members of which he recruited from opposition and independent ranks. Aside from former Home Minister Chang, there is virtually no successor to Yi within the party, and Rhee would probably be forced to seek a new lieutenant outside the organization.

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RAMIFICATIONS OF THE 1957 MOSCOW YOUTH FESTIVAL

The impact of last summer's international youth festival in Moscow on foreign delegates and Moscow citizens points up the problems the Soviet Union faces in attempting a broad cultural exchange with the non-Communist world. While the USSR impressed many delegates, particularly those from underdeveloped countries, as a powerful but peace-loving nation, this was achieved at the price of exposing thousands of Soviet youths and Muscovites to a wide range of non-Communist views.

The overwhelming warmth of the welcome accorded foreign participants and the zeal of Soviet citizens, despite strong official disapproval, in seeking out personal contacts with individual foreigners revealed an intense interest and curiosity in all things foreign.

Preparations

World youth festivals are sponsored by Communist-dominated international youth organizations and have been held biennially since 1947. This year's was the first held in the Soviet Union. The final stages in the work of the festival preparatory committee got under way in January, apparently after Moscow had decided to proceed with the festival despite the Polish and Hungarian events and manifestations of unrest among students in the Soviet Union and the satellites in late 1956.

Steps were taken to ensure that the Soviet participants--3,000 delegates and the residents of Moscow--would present a firm ideological front. The Soviet press carefully instructed Soviet youths in the answers they should give to critical questions of foreigners and warned against "unbridled behavior or kowtowing." As one official put it, "our

hydroelectric plants are worth any number of fancy foreign cigarette lighters." A law against drunkenness, gambling, and uncouth behavior in public places was passed by the city government, and workers were cautioned against wearing disreputable clothes on buses and subways.

Citizens were forbidden to invite foreigners to their homes and were warned against more than formal friendly contacts. Troublemakers among the Moscow student body were reportedly sent out of town, and large numbers of extra militia and secret police were brought in, many of them allegedly dressed in civilian clothes. Interpreters for the various delegations were instructed to allow as few contacts as possible between foreign delegates and the citizenry. Russian-speaking foreigners were to be watched closely.

Program

The festival, which lasted from 28 July to 11 August, was attended by approximately 34,-000 young people from 131 countries

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[It began with a street procession of representatives of all participating nations. The route was lined by enormous crowds of cheering Muscovites, whose enthusiasm to greet the delegates was only barely restrained by the militia.]

A welcoming speech by President Voroshilov, followed by a display of Soviet dancing and mass gymnastics, opened a two-week program of social, sporting, and cultural events into which the Soviet regime threw all its resources. The Bolshoi Theater, usually closed in the summer, gave free performances daily. Numerous choral and dance groups held

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concerts every night. The Kremlin was thrown open for two balls, and public transportation was free for all foreign guests. The chief aim of the regime was evidently to maintain a whirl of colorful activity which would dazzle the delegates.

Beneath the colorful trimmings, however, was a hard political foundation. Two well-organized and emotionally high pitched political rallies were held--one "an evening of solidarity with the youth of the colonial countries" and the other a demonstration against the use of the atomic bomb on Hiroshima. In addition, numerous seminars were held to bring together youths of different nationalities but with similar professions, trades, or hobbies.

The political content of these seminars was only thinly disguised, and they usually degenerated into open tirades against the West. While everyone was given an opportunity to speak, it was difficult for non-Communists to get passes for admittance and the presiding chairmen were invariably Communist-oriented. Many of the seminars were apparently intended primarily for the benefit of the hard-core faithful, to provide a haven from the bewildering unorthodoxy of the informal festival events.

The cost to the Soviet government of this vast enterprise was enormous--somewhere between \$100,000,000 and \$150,000,000, according to most estimates. Not only were large sums spent on physical preparations and entertainment, but the visitors' travel and hotel expenses were heavily subsidized. Several Soviet ships were used to transport delegates to the festival, and the Soviet government, assisted only to a minor extent by contributions from foreign Communist parties, provided free

board and lodging for all participants. [redacted] donations were solicited from the Soviet population.

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25X1Contacts With the Population

Although the warmth of the Muscovite welcome and the excitement of the first few days affected even the most stable participants, some of the enthusiasm soon wore off and many delegates, particularly the politically independent Westerners, began to gain a more accurate impression of the Soviet system.

Much of this eye-opening process derived from the often clumsy interference of Soviet authorities with attempts by the delegates to learn about the Soviet Union and its people. A number of delegates were prevented from traveling to the outskirts of Moscow, and official interpreters tried to keep delegates from engaging in conversations with Soviet citizens.

There were many reports that Soviet youths who talked privately with foreigners were later questioned by the police. Interpreters who became too friendly with the foreigners in their charge disappeared, and Soviet youths with whom visitors had become acquainted failed to appear at prearranged meetings.

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[redacted] said they met numerous young Russian malcontents who seemed bent on smashing any illusions the visitors might have about the Soviet Union.

Handling of the Delegations

Delegations from the colonial and underdeveloped areas were clearly the festival's prime targets. They received the most lavish living accommodations and almost always won chairmanships of the seminars. The Syrians and Egyptians were the favorites and were cheered wildly wherever they went.

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On the other hand, the Israeli delegation was severely discriminated against, probably because the regime was seriously disturbed by the effusive welcome given it by Soviet Jews. The efforts of the latter to contact the Israeli delegates were staggering and often pathetic. Despite the obvious risk and constant official interference, thousands of Jews gathered at railway stations to see the Israeli train on its way to Moscow. The first Israeli performance at the festival was attended by thousands of Soviet Jews, many of whom had traveled great distances.

To preclude similar occurrences, the time or location of an Israeli cultural event was changed at the last possible moment and in one instance the Israeli delegation was simply told it could not perform because its members were "sick."

The Hungarian delegation also received special treatment. It was reportedly housed in a small hotel on a back street which was under constant surveillance, and any contact with its members was almost impossible. [redacted]

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The most impressive group in the view of many observers was the Polish delegation of 1,500 youths representing all shades of political beliefs. They were well informed, for the most part knew the Russian

language, and were generally critical of the Soviet system. They apparently missed no opportunity to challenge the Soviet Communists and to propagandize the Polish "experiment."

During one seminar, the Poles attacked the Soviet action in Hungary, causing the Soviet delegation considerable embarrassment. In a similarly belligerent frame of mind, a contingent of young Polish writers contested with a group of Soviet writers on the issue of "socialist realism." The Yugoslavs also were generally critical, but less aggressive, in their stand than the Poles.

The 150 or more American participants were a source of special interest and curiosity to Soviet citizens, who were extremely disappointed at the small size of the delegation. Over and over again the phrase was heard, "Why didn't more Americans come?" Some of the Americans spent most of their two weeks on the streets reading aloud portions of the UN report on Hungary and engaging in question-and-answer sessions with crowds of Soviet citizens. In an effort to counter their popularity, the Soviet press ran a number of articles accusing some of the Americans of malicious behavior and spying.

Impact on Soviet Citizens

Perhaps the most significant aspect of the festival was its impact on Soviet citizens. For two weeks, thousands of foreigners were loose in Moscow, probably more than the city had seen at one time since the revolution. The regime had banked heavily on the natural hospitality of its population in its campaign to woo the

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youth of the world, but the welcome appears to have been far warmer than had been expected or intended. The Muscovites appeared convinced that this was a brief period when they could feel free to mingle with foreigners and satisfy their curiosity--with a friendliness and single-minded intensity which never ceased to amaze observers.

The official warnings against fraternization, the questioning by the police, and other such measures apparently had the effect of disillusioning foreigners, rather than deterring the Russians. Many Soviet citizens remarked that in normal times they would never dare talk so freely, but "well, this is the festival." Others philosophically confided their conviction that they would be questioned later by the police but it would have been worth it.

Many foreign delegates were more than willing to confirm the worst official Soviet accusations against their countries, but others were determined to present a favorable picture of their homelands. For two weeks, day and night, the main streets and squares of Moscow took on the appearance of Hyde Park with groups of inquisitive Russians clustered around foreign visitors.

Westerners who engaged in these sidewalk conferences disagreed widely as to their effect on the Soviet audiences. Some were convinced they made no impression, that the Soviet

people with whom they came in contact were immune to and incapable of grasping new ideas. Others contended, however, that they were able to break through the party-line front and engage in a frank and critical exchange which revealed considerable awareness among Soviet citizens of serious shortcomings in their system and an intense desire for further liberalization. The subject of the Hungarian uprising often proved to be a successful opening in the party-line armor because of the widespread doubt among Soviet youth about the veracity of the official Communist explanation and revulsion at the Soviet army's interference.

Despite the differing opinions on the benefits of these contacts, everyone agreed the Soviet citizens were eager to listen. Their interest seemed to be limitless, regardless of how critical the subject. On many occasions a foreign delegate would find himself pressed into continuing the exchange into the small hours of the morning.

Even if few Soviet citizens were profoundly shaken in their political views, their desire for contacts with Westerners was stimulated and many were at least exposed to new and perhaps thought-provoking ideas. As one Soviet student earnestly commented to a Western delegate, "You can't imagine how profound is the effect of merely seeing that Americans are normal human beings."

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